

# Kentucky Agricultural Finance Corporation

## Minutes of the September 5, 2008 Meeting

The meeting of the Kentucky Agricultural Finance Corporation (KAFC) Board of Directors was held Friday, September 5, 2008 at the Transportation Office Building, Room C107, in Frankfort, Kentucky. Bruce Harper, designee for Commissioner Richie Farmer, presiding, called the meeting to order at 10:07 a.m. EDT.

### **Notification of the Press**

Mr. Harper received verification that the media had been notified regarding the KAFC monthly meeting. It was noted that Kara Keeton of Keeton Communications was present.

### **Roll Call**

The Secretary called roll.

#### ***Members Present***

Bruce Harper (designee for Commissioner Farmer), Bob Gaslin, Wayne Hunt, Larry Jaggars, Doug Lawson, Tom Midkiff (designee for Secretary Miller), Bob Proffitt, James Reams, Annette Crawford-Walters

#### ***Members Absent***

Charles Miller, Frank Penn

#### ***Others Present***

**Staff** – Angela Blank, Diane Fleming, Sandra Gardner, Jennifer Hudnall, Tim Hughes, Bill McCloskey, Christi Marksburly, Joel Neaveill, Mason Routt, Roger Thomas

**Guests** – Doc Meredith, Lincoln National Bank; Caleb Ragland; Andy Bishop, Farm Credit Services (Elizabethtown); Ben Pawley; Kara Keeton, Keeton Communications; Kyle Mims; Kenny Mims; Ginger Perry, Farm Credit Services (Elizabethtown)

### **Welcome / Introduction of Guests**

Mr. Harper thanked everyone for taking time out of their busy schedules to attend this important meeting.

### **Review and Approval of Minutes**

**Bob Gaslin moved to approve the minutes of the July 18, 2008 meeting, as presented, of the KAFC Board of Directors;** Tom Midkiff seconded the motion.

*The motion passed without dissent.*

### **Reports**

#### **Executive Director's Report**

Mr. Harper called on Roger Thomas for the Executive Director's Report.

Mr. Thomas introduced the Project Analysts for the Kentucky Agricultural Development Board (KADB) and the Governor's Office of Agricultural Policy's (GOAP) new attorney, Diane Fleming.

Ms. Fleming introduced herself; she comes to GOAP from the Attorney General's Office and started August 1.

The Project Analysts introduced themselves. Jennifer Hudnall came to GOAP from Franklin County Cooperative Extension Service, started August 18, and will be working with projects in the northern and central counties. Christi Marksburly has been on staff since 2005; she will be working with the

western counties. Mason Routt came to GOAP from the insurance industry, started August 18, and will be working with the southern/southeastern counties.

Mr. Thomas noted that this is a transition period for KAFC staff and shared that the Project Analysts are being encouraged to become more involved and integrated into KAFC and assist in promoting KAFC loan programs.

Mr. Thomas commended Tim Hughes, Bill McCloskey, Sandra Gardner, and the Project Analysts for ongoing work to assist in this effort.

Mr. Thomas commented on the joint Board Meeting in July and the feedback he had received on how valuable the joint KAFC-KADB meeting was. Mr. Thomas announced plans to have more joint meetings in the future, starting with the joint meeting after the 2009 KADB/KAFC Annual Meeting in January.

Mr. Thomas provided an update on the activities surrounding the Kentucky State Fair where GOAP had a booth in the "Main Street" area. Mr. Thomas noted that GOAP had acquired new displays with photos of the Governor involved in agriculture and a new barn front where a video of KAFC-KADB projects was shown. Mr. Thomas also noted the extensive participation of the Governor in events surrounding the State Fair.

Mr. Thomas announced that Kentucky has been invited to be highlighted during the Sunbelt Agriculture Expo in Georgia this October. Additionally, Mr. Thomas has been asked to be the keynote speaker for a luncheon at the event.

Mr. Thomas also announced that the Awards presented at the Annual Meeting luncheon will be expanded to include KAFC projects or lenders, but specifics are still under consideration.

Mr. Thomas reported on the audit of a KADB funded project and explained why the audit was requested by the KADB, what the results were, and the resulting media release. Mr. Thomas noted that the key point of the audit is that legal agreements need to be crafted in a way that protects the Commonwealth.

Mr. Thomas yielded the floor to the KADB liaison, Wayne Hunt, for comment on the audit and his perspective.

The Board discussed GOAP's media response and if/when that may occur. It was noted that GOAP has 60-days to respond to the recommendations in the audit and how those are being implemented.

### **Financial Services Director's Report**

Mr. Harper called on Bill McCloskey to give the Financial Services Director's Report.

Mr. McCloskey directed the members to the memo and guidelines for the Large Animal Veterinarian Program (on file with the Board Secretary). Mr. McCloskey suggested a timeline for approval and implementation of the program, and proposed two revisions made to the guidelines since the board last saw the document.

Mr. McCloskey addressed questions from the members about the program.

**Annette Crawford Walters moved to approve the revised guidelines for the Large Animal Veterinarian Program;** James Reams seconded the motion.

*The motion passed without dissent.*

Mr. McCloskey reviewed the financial position report (below) of KAFC, which reflected activity since the last meeting.

<b>KAFC Statement of Financial Position</b>	
<b>ASSETS:</b>	
Interest Earned from Loans	\$895,503.75
Interest Earned from State Investment Commission	\$919,894.65
Interest Fund (2802 Acct.)	\$1,815,398.40
Principal/Loan Fund (2803 Acct.)	\$6,719,401.78
Loan Funds Disbursed	\$16,280,598.22
Funds Held by State & not transferred to KAFC	\$3,000,000.00
<b>Total Assets:</b>	<b>\$27,815,398.40</b>

Mr. McCloskey also noted discussion of simplifying and creating an umbrella agreement between KAFC and KADB to simplify reporting, address use of interest and principal paybacks to KAFC, and other issues.

Mr. McCloskey reviewed the cash flow report (on file with the secretary) and the 12-month average report (on file with the secretary) to show inflows and outflows over the last 12-month period. Mr. McCloskey started a discussion about requesting additional funds from the KADB, because of the potential for more loan requests to be received, compared to the rate of funds being paid back.

Mr. McCloskey proposed the following timeline: October – application submitted to KADB; November – application reviewed by KADB in deferred status; December – possible action by KADB.

***Ms. Walters moved to authorize GOAP staff to prepare an application on behalf of KAFC to the KADB requesting \$5 million for KAFC to continue administering existing programs, allocating monies as necessary, and creating a new Vet program;*** Mr. Hunt seconded the motion.

The floor opened for discussion. The Board discussed if \$5 million is enough and the possibility of raising the interest rate to slow the outflow of funds. The interest rate discussion resulted in a discussion of convening the KAFC committees to discuss such issues.

The question was called. *The motion passed without dissent.*

Mr. McCloskey announced that staff will be looking into options for an Annual Audit of KAFC, in light of the KADB project audit.

Mr. McCloskey provided an update on the Harold Burton project and expects to have further information for the Board in November on cash flows and the ability for this project to start repayment in Mar/Apr 2009.

Mr. McCloskey announced that the next meeting of KAFC would be the first Friday in November and that the every-other-month meeting trend will continue, unless additional meetings are necessary.

Mr. McCloskey also announced that the results of the KAFC portion of the UK Evaluation on projects that was commissioned by the KADB will be presented at the KADB's November planning meeting and all KAFC board members are invited.

Mr. McCloskey provided an overview of the number and types of loans being presented for Board action. Mr. McCloskey noted a change in recommendation for two applications, AF08-0073 and AF08-0074, from approval to pending, to obtain additional information.

### **New Business**

The following loan applications were received between July 5 and August 22, 2008.

#### **Agricultural Infrastructure Loan Program**

**AF08-0056 Morris, Greg & Michelle** – Applicants requested \$12,500 for construction of a 7,968 bushel grain bin in Marion County. Central Kentucky ACA (Lebanon) is the participating lender.

*This loan was approved by staff (August 5, 2008), based upon loan size and credit score per Agricultural Infrastructure Loan Program policy adopted June 24, 2005.*

**AF08-0057 Arnold, T. Randy** – Applicant requested \$250,000 for construction of additional grain handling and storage facilities next to existing facilities on Everitt Lane in Christian County. Farm Credit Services of Mid-America (Hopkinsville) is the participating lender. Staff recommended approval.

**Ms. Walters moved to approve AF08-0057, based on staff's recommendation; Doug Lawson seconded the motion. The motion passed without dissent.**

**AF08-0058 James, Terry & Robbie** – Applicants requested \$35,000 for construction of a 60' x 104' building for stripping tobacco, storing tobacco bales, and equipment storage in Henry County. United Citizens Bank and Trust Company is the participating lender.

*This loan was approved by staff (August 5, 2008), based upon loan size and credit score per Agricultural Infrastructure Loan Program policy adopted June 24, 2005.*

**AF08-0059 Palmer, Michael** – Applicant requested \$27,500 for construction of a dark fired tobacco barn on their property in Calloway County. First Community Bank of Western Kentucky is the participating lender. Staff recommended approval.

**Larry Jagers moved to approve AF08-0059, based upon staff's recommendation; Tom Midkiff seconded the motion. The motion passed without dissent.**

**AF08-0060 Wilson, John** – withdrawn by applicant

**AF08-0061 Wade, Robert** – Applicant requested \$53,045 for the replacement of an unusable grain bin for storage of grain crops on owned and leased land in Hardin County. Farm Credit Services of Mid-America (Bardstown) is the participating lender. Staff recommended approval.

**Mr. Hunt moved to approve AF08-0061, based upon staff's recommendation; Mr. Jagers seconded the motion. Bob Gaslin abstained from the vote, due to conflict of interest. The motion passed without dissent.**

**AF08-0062 Kinslow, H. Don** – Applicant requested \$250,000 for renovation of a milking parlor and construction of a free stall barn in Barren County. Farm Credit Services of Mid-America (Glasgow) is the participating lender. There was discussion of the difference in term between KAFC (15 years) and the lender (10 years). Staff recommended approval with a 15-year term for KAFC.

**Mr. Hunt moved to approve AF08-0062, based upon staff's recommendation; Mr. Jagers seconded the motion. The motion passed without dissent.**

**AF08-0065 Clark, L.P. & Sundown** – Applicants requested \$30,000 for construction of a 200' x 64' tobacco barn in Green County. PBI Bank & Trust is the participating lender. Staff recommended approval conditional on CLTV is no worse than 90% after appraisal.

**Mr. Gaslin moved to approve AF08-0065, based upon staff's recommendation; Ms. Walters seconded the motion. The motion passed without dissent.**

**AF08-0067 Stinson, Lonnie** – Applicant requested \$250,000 for the purchase of 35.47 acres with two Cobb-Vantress layer poultry houses and construction of an additional poultry house in Wayne County. Farm Credit Services of Mid-America (Somerset) is the participating lender. Staff recommended approval conditional on FSA guarantee.

**Mr. Gaslin moved to approve AF08-0067, based upon staff's recommendation; Mr. Reams seconded the motion. The motion passed without dissent.**

**AF08-0069 Cave, Thomas & Evangela** – pending

**AF08-0073 Knott Borthers Farm Inc.** – pending

**AF08-0074 Davis, Ronald & Heather** – pending

**AF08-0075 Schneider, Barry & Laurie** – Applicants requested \$22,500 for construction of a dual purpose tarp building for grain storage in the winter and equipment storage, during the remainder of the year, in Henderson County. Independence Bank (Henderson) is the participating lender. Staff recommended approval conditional on lease agreement between father and son for the length of the loan.

**Ms. Walters moved to approve AF08-0075, based upon staff's recommendation; Mr. Hunt seconded the motion. The motion passed without dissent.**

**AF08-0077 Jones, Stewart & Mary** – pending

### ***Beginning Farmer Loan Program***

**AF08-0063 Pawley, Ben** – Applicant requested \$27,995 for the purchase of a 20-acre farm, including house, from his father in Hardin County. Farm Credit Services of Mid-America (Elizabethtown) is the participating lender. Staff recommended approval.

Mr. McCloskey acknowledged that the lender and applicant were present. Ms. Walters asked to hear from the applicant; the applicant shared what he plans to do.

**Mr. Jagers moved to approve AF08-0063, based upon staff's recommendation; Mr. Lawson seconded the motion. The motion passed without dissent.**

**AF08-0064 McCubbin, Henry Todd** – Applicant requested \$50,000 for the purchase of a 255-acre farm from father in Taylor County. Central Kentucky ACA (Lebanon) is the participating lender. Staff recommended approval.

**Mr. Gaslin moved to approve AF08-0064, based upon staff's recommendation; Bob Proffitt seconded the motion. The motion passed without dissent.**

**AF08-0066 Sparrow Brothers, LLC** – pending

**AF08-0068 Rutherford, Steven & Theresa** – Applicants requested \$250,000 for the purchase of a 32-acre poultry breeder farm, including land, breeder barns, and other farm structures, in Graves County. FNB Bank is the participating lender. Staff recommended approval.

**Ms. Walters moved to approve AF08-0068, based upon staff's recommendation; Mr. Hunt seconded the motion. The motion passed without dissent.**

**AF08-0070 Mims, Kyle** – Applicant requested \$213,300 for the purchase of 48% interest in the family poultry and grain operation in Clinton County. Farm Credit Services of Mid-America (Somerset) is the participating lender. Staff recommended approval with the following conditions: 1) the notes payable to grandfather are paid, 2) legal documents are provided showing poultry and grain assets have been transferred to Mims, Inc, and 3) an operating agreement between father and son has been executed.

**Mr. Lawson moved to approve AF08-0070, based upon staff's recommendation and the additional condition that the applicant is guaranteed by Mims, Inc.;** Ms. Walters seconded the motion. The motion passed without dissent.

**AF08-0071 Martin, Derek S.** – Applicant requested \$250,000 for the purchase of a 28-acre pullet farm, which includes three pullet barns, equipment, and shop, in Graves County. FNB Bank is the participating lender. Staff recommended approval.

**Mr. Reams moved to approve AF08-0071, based upon staff's recommendation;** Mr. Hunt seconded the motion. The motion passed without dissent.

**AF08-0072 Knott, Robert** – pending

**AF08-0076 Ragland, Caleb** – Applicant requested \$250,000 for construction of a 1,600 sow farrow-to-wean operation in LaRue County. Lincoln National Bank is the participating lender. Staff recommended approval with the following conditions: 1) operating agreements between entities; 2) evidence of applicant's ownership interest with each entity; and 3) co-applicant addendum signed by applicant's spouse.

**Mr. Jagers moved to approve AF08-0076, based upon staff's recommendation;** Mr. Proffitt seconded the motion. The motion passed without dissent.

**AF08-0078 Jones, David & Anthony** – pending

### Old Business

**AF06-0049 Jones, Stewart & Mary** – Applicants request a change in participating lender from Springfield State Bank to Farm Credit Service of Mid-America (Campbellsville). Staff recommended granting the request.

**Mr. Hunt moved to approve the request to change the participating lender for AF06-0049 to Farm Credit Service of Mid-America (Campbellsville);** Ms. Walters seconded the motion. The motion passed without dissent.

**AF07-0082 Workman Hog Farms** – Applicant requested an additional \$150,000 and 6-month extension. Staff recommended approval.

**Mr. Hunt moved to approve the loan extension to March 7, 2009 and the additional \$150,000, bringing the loan total to \$250,000;** Mr. Proffitt seconded the motion. The motion passed without dissent.

**AF08-0008 Sarten, Stephen O.** – Staff notified the Board of termination of this application, based on the fact that the applicant could not find a lender to participate.

**AF08-0052 Howell, Eric & Brenda** – Applicants requested \$150,000 for the expansion of grain handling facilities to add 370,000 bushels of storage in Marshall County. Jackson Purchase ACA (Murray) is the participating lender. Staff recommended approval.

**Mr. Hunt moved to approve AF08-0052, based upon staff's recommendation;** Mr. Reams seconded the motion. The motion passed without dissent.

### Closing Remarks

The next meeting of the K AFC Board will be Friday, November 7, 2008 in Frankfort, KY beginning at 10:00 a.m. EDT.

The meeting adjourned at 12:40 p.m. EDT.

APPROVED: He 7-2008

PRESIDING: [Signature]

SECRETARY: [Signature]